

BEDFORD COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Bedford Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2005 election)</b>		
Layne Thornton	President	2006
Tony Brown	Vice President	2005
Jack Spencer	Board Member	2007
Paul Walston	Board Member	2005
Mike Irvin	Board Member	2006
<b>Board of Education (After September 2005 election)</b>		
Layne Thornton	President	2006
Tony Brown	Vice President	2008
Jack Spencer	Board Member	2007
Ed Hensley	Board Member	2008
Mike Irvin	Board Member	2006
<b>School Officials</b>		
Joe Drake	Superintendent	2006
Sharon Hart	District Secretary/Treasurer	2006
Rick Engel	Attorney	2006

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

**(a professional corporation)**

**117 West 3rd Street North, Newton, Iowa 50208-3050**

**Telephone (641) 792-1910**

### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education of the  
Bedford Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Bedford Community School District, Bedford, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Bedford Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

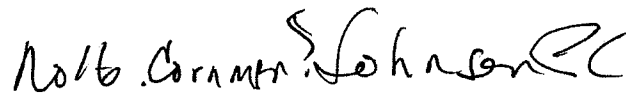
In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2006 on our consideration of Bedford Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

**Members American Institute & Iowa Society of Certified Public Accountants**

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bedford Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson" followed by a stylized flourish or initials.

NOLTE, CORNMAN & JOHNSON, P.C.

August 30, 2006

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Bedford Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$4,376,824 in fiscal 2005 to \$4,380,722 in fiscal 2006, while General Fund expenditures increased from \$4,293,637 in fiscal 2005 to \$4,407,116 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$320,412 in fiscal 2005 to a balance of \$294,018 in fiscal 2006, a 8.23% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in local source revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- The September 2005 Certified Enrollment count resulted in a decrease of 19.8 students, representing a 3.74% decrease compared to the prior year.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Bedford Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Bedford Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Bedford Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Bedford Community School District Annual Financial Report**

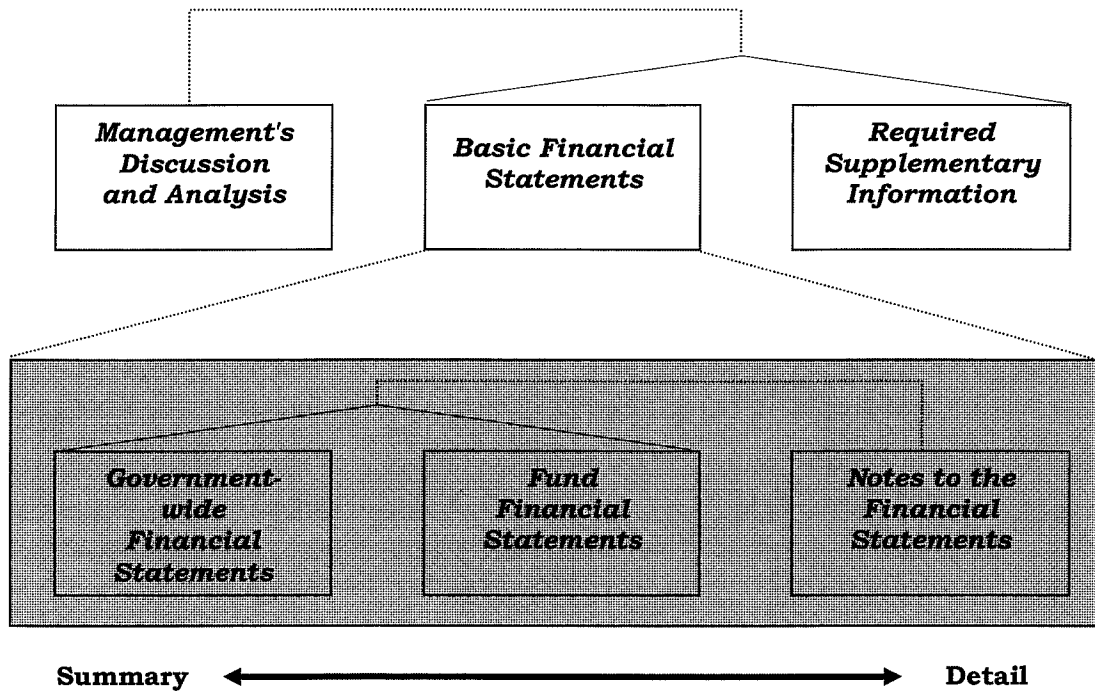


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the Government-Wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.



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The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Agency Fund.

- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 3,297,981	3,316,450	21,462	27,898	3,319,443	3,344,348	-0.74%
Capital assets	4,855,803	4,883,862	44,169	53,958	4,899,972	4,937,820	-0.77%
Total assets	8,153,784	8,200,312	65,631	81,856	8,219,415	8,282,168	-0.76%
Long-term obligations	1,255,268	1,471,334	0	0	1,255,268	1,471,334	-14.69%
Other liabilities	2,459,653	2,489,193	29,151	18,589	2,488,804	2,507,782	-0.76%
Total liabilities	3,714,921	3,960,527	29,151	18,589	3,744,072	3,979,116	-5.91%
Net assets:							
Invested in capital assets, net of related debt	3,985,895	3,778,319	44,169	53,958	4,030,064	3,832,277	5.16%
Restricted	67,993	60,729	0	0	67,993	60,729	11.96%
Unrestricted	384,975	400,737	(7,689)	9,309	377,286	410,046	-7.99%
Total net assets	\$ 4,438,863	4,239,785	36,480	63,267	4,475,343	4,303,052	4.00%

The District's combined net assets increased by 4.00% or \$172,291 compared to the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased \$7,264 or 11.96% over the prior year. The increase was primarily a result of the increase in the Management Fund balance due to the reduction of the balance owed for early retirement benefits.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$32,760 or 7.99%. The decrease was primarily a result of the decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 482,167	498,609	116,707	126,815	598,874	625,424	-4.25%
Operating grants and contributions and restricted interest	598,241	584,796	180,050	133,331	778,291	718,127	8.38%
Capital grants and contributions and restricted interest	0	50,000	0	0	0	50,000	-100.00%
General revenues:							
Local tax	1,667,865	1,656,820	0	0	1,667,865	1,656,820	0.67%
Local option sales and service tax	250,323	257,572	0	0	250,323	257,572	-2.81%
Unrestricted state grants	2,058,482	2,090,270	0	0	2,058,482	2,090,270	-1.52%
Other	66,363	24,389	105	74	66,468	24,463	171.71%
Total revenues	5,123,441	5,162,456	296,862	260,220	5,420,303	5,422,676	-0.04%
Program expenses:							
Governmental activities:							
Instructional	3,065,313	3,007,249	0	0	3,065,313	3,007,249	1.93%
Support services	1,470,397	1,339,853	237	0	1,470,634	1,339,853	9.76%
Non-instructional programs	0	0	323,412	273,229	323,412	273,229	18.37%
Other expenses	388,653	399,386	0	0	388,653	399,386	-2.69%
Total expenses	4,924,363	4,746,488	323,649	273,229	5,248,012	5,019,717	4.55%
Changes in net assets	199,078	415,968	(26,787)	(13,009)	172,291	402,959	-57.24%
Net assets beginning of year	4,239,785	3,823,817	63,267	76,276	4,303,052	3,900,093	10.33%
Net assets end of year	\$ 4,438,863	4,239,785	36,480	63,267	4,475,343	4,303,052	4.00%

In fiscal 2006, property tax, local option sales and services tax and unrestricted state grants account for 77.62% of the revenue from governmental activities while charges for service and seals and operating grants and contributions account for 99.96% of the revenue from business-type activities.

The District's total revenues were \$5,420,303 of which \$5,123,441 was for governmental activities and \$296,862 was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a .04% decrease in revenues and a 4.55% increase in expenses. Property tax increased by \$11,045 to fund increases in expenditures. The increases in expenses related to increases in negotiated salary and benefits as well as increases in expenses fund by grants received by the District.

### Governmental Activities

Revenues for governmental activities were \$5,123,441 and expenses were \$4,924,363. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2006	2005	Change 2005-06	2006	2005	Change 2005-06
Instruction	\$ 3,065,313	3,007,249	1.93%	2,145,043	2,084,179	2.92%
Support services	1,470,397	1,339,853	9.74%	1,469,745	1,339,228	9.75%
Other expenses	388,653	399,386	-2.69%	229,167	189,676	20.82%
Totals	<u>\$ 4,924,363</u>	<u>4,746,488</u>	<u>3.75%</u>	<u>3,843,955</u>	<u>3,613,083</u>	<u>6.39%</u>

- The cost financed by users of the District's programs was \$482,167.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$598,241.
- The net cost of governmental activities was financed with \$1,667,865 in local tax, \$250,323 in local option sales and service tax, \$2,058,482 in unrestricted state grants, \$40,132 in interest income, \$1,004 in gain on sale of capital assets and \$25,227 in other general revenues.

### Business-Type Activities

Revenues of the District's business-type activities were \$296,862 and expenses were \$323,412. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Bedford Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$748,024, above last year's ending fund balances of a \$730,870. The primary reason for this increase was due to the increase in the Capital Projects Fund balance.

### Governmental Fund Highlights

- The District's decrease in General Fund financial position is the product of many factors. Increase in the other local revenues during the year resulted in an increase in revenues. The increase in revenues was not enough to offset the District's increase in General Fund expenditures ensuring the decrease of the District's financial position.
- The Capital Projects fund balance increased from \$225,620, in 2005, to \$317,513, in 2006, due to expenditures were less than the collection of local option sales and services tax revenues.

### Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$63,267 at June 30, 2005 to \$36,480 at June 30, 2006, representing a decrease of 42.34%.

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## BUDGETARY HIGHLIGHTS

The District's revenues were \$166,772 less than budgeted revenues, a variance of 2.98%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget exceeded in the other expenditures function due to the timing of expenditures paid at year-end without sufficient time to amend the certified budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested \$4.9 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of .77% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$251,428.

The original cost of the District's capital assets was \$7,809,148. Governmental funds account for \$7,691,675 with the remainder of \$117,473 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building category. The District's buildings totaled \$4,426,885 at June 30, 2005 compared to \$4,378,516 at June 30, 2006. This decrease was the result of current year depreciation expense.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 13,400	13,400	0	0	13,400	13,400	0.00%
Buildings	4,378,516	4,426,855	0	0	4,378,516	4,426,855	-1.10%
Land improvements	295,187	308,117	0	0	295,187	308,117	-4.38%
Machinery and equipment	168,700	135,490	44,169	53,958	212,869	189,448	11.00%
Total	\$ 4,855,803	4,883,862	44,169	53,958	4,899,972	4,937,820	-0.77%

### Long-Term Debt

At June 30, 2006, the District had long-term debt outstanding of \$1,255,268 in general obligation and other long-term debt outstanding. This represents a decrease of 14.7% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonds payable of \$1,105,000 at June 30, 2006.

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The District had total outstanding capital loan notes payable from the Special Revenue, Physical Plant and Equipment Levy Fund of \$115,000 at June 30, 2006.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$35,268 at June 30, 2006.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total
	2006	2005	Change
General obligation bonds	\$ 1,105,000	1,275,000	-13.3%
Capital loan notes	115,000	130,000	-11.5%
Early retirement	35,268	66,334	-46.8%
Total	<u>\$ 1,255,268</u>	<u>1,471,334</u>	<u>-14.7%</u>

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The voters of Taylor County passed the Local Options Sales and Service Tax for School Infrastructure (SILO). This 1 cent tax on sales and service will greatly benefit the District in maintaining their building, purchasing equipment and paying long-term debt. Funding began in January 2005 and will continue through December 2014.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sharon Hart, Board Secretary, Bedford Community School District, 906 Penn Street, Bedford, Iowa, 50833.

## BASIC FINANCIAL STATEMENTS

BEDFORD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 452,294	0	452,294
Other	937,901	0	937,901
Receivables:			
Property tax:			
Delinquent	63,252	0	63,252
Succeeding year	1,535,687	0	1,535,687
Income surtax	93,348	0	93,348
Accounts	3,460	149	3,609
Accrued ISCAP interest(Note 4)	140	0	140
Due from other governments	211,899	13,637	225,536
Inventories	0	7,676	7,676
Capital assets, net of accumulated depreciation(Note 5)	4,855,803	44,169	4,899,972
<b>TOTAL ASSETS</b>	<b>8,153,784</b>	<b>65,631</b>	<b>8,219,415</b>
<b>LIABILITIES</b>			
Excess of warrants issued over bank balance	0	11,681	11,681
Accounts payable	79,302	0	79,302
Salaries and benefits payable	386,065	14,696	400,761
ISCAP warrants payable(Note 4)	452,000	0	452,000
ISCAP interest payable(Note 4)	115	0	115
ISCAP unamortized premium	3,440	0	3,440
Interest payable	3,044	0	3,044
Deferred revenue:			
Succeeding year property tax	1,535,687	0	1,535,687
Unearned revenue	0	2,774	2,774
Long-term liabilities(Note 6):			
Portion due within one year:			
Bonds payable	175,000	0	175,000
Capital loan notes payable	15,000	0	15,000
Early retirement	35,268	0	35,268
Portion due after one year:			
Bonds payable	930,000	0	930,000
Capital loan notes payable	100,000	0	100,000
<b>TOTAL LIABILITIES</b>	<b>3,714,921</b>	<b>29,151</b>	<b>3,744,072</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	3,985,895	44,169	4,030,064
Restricted for:			
Beginning teacher mentoring	499	0	499
Additional teacher contract day	863	0	863
Additional professional development	1,029	0	1,029
Management levy	9,389	0	9,389
Other special revenue purposes	56,213	0	56,213
Unrestricted	384,975	(7,689)	377,286
<b>TOTAL NET ASSETS</b>	<b>\$ 4,438,863</b>	<b>36,480</b>	<b>4,475,343</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



BEDFORD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 1,705,111	254,320	410,683	(1,040,108)	0	(1,040,108)
Special instruction	668,187	58,320	28,072	(581,795)	0	(581,795)
Other instruction	692,015	168,875	0	(523,140)	0	(523,140)
	<u>3,065,313</u>	<u>481,515</u>	<u>438,755</u>	<u>(2,145,043)</u>	<u>0</u>	<u>(2,145,043)</u>
Support services:						
Student services	125,990	0	0	(125,990)	0	(125,990)
Instructional staff services	154,620	0	0	(154,620)	0	(154,620)
Administration services	548,440	0	0	(548,440)	0	(548,440)
Operation and maintenance of plant services	415,706	0	0	(415,706)	0	(415,706)
Transportation services	225,641	652	0	(224,989)	0	(224,989)
	<u>1,470,397</u>	<u>652</u>	<u>0</u>	<u>(1,469,745)</u>	<u>0</u>	<u>(1,469,745)</u>
Other expenditures:						
Long-term debt interest	41,029	0	0	(41,029)	0	(41,029)
AEA flowthrough	159,486	0	159,486	0	0	0
Depreciation(unallocated)*	188,138	0	0	(188,138)	0	(188,138)
	<u>388,653</u>	<u>0</u>	<u>159,486</u>	<u>(229,167)</u>	<u>0</u>	<u>(229,167)</u>
Total governmental activities	<u>4,924,363</u>	<u>482,167</u>	<u>598,241</u>	<u>(3,843,955)</u>	<u>0</u>	<u>(3,843,955)</u>
Business-Type activities:						
Support services:						
Nutrition services	237	237	0	0	0	0
Non-instructional programs:						
Nutrition services	323,412	116,470	180,050	0	(26,892)	(26,892)
Total business-type activities	<u>323,649</u>	<u>116,707</u>	<u>180,050</u>	<u>0</u>	<u>(26,892)</u>	<u>(26,892)</u>
Total	<u>\$ 5,248,012</u>	<u>598,874</u>	<u>778,291</u>	<u>(3,843,955)</u>	<u>(26,892)</u>	<u>(3,870,847)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,461,090	0	1,461,090
Capital outlay				56,829	0	56,829
Debt service				149,946	0	149,946
Local option sales and services tax				250,323	0	250,323
Unrestricted state grants				2,058,482	0	2,058,482
Unrestricted investment earnings				40,132	105	40,237
Gain on sale of capital assets				1,004	0	1,004
Other				25,227	0	25,227
Total general revenues				<u>4,043,033</u>	<u>105</u>	<u>4,043,138</u>
Changes in net assets				199,078	(26,787)	172,291
Net assets beginning of year				<u>4,239,785</u>	<u>63,267</u>	<u>4,303,052</u>
Net assets end of year				<u>\$ 4,438,863</u>	<u>36,480</u>	<u>4,475,343</u>

\* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

BEDFORD COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and pooled investments:				
ISCAP(Note 4)	\$ 452,294	0	0	452,294
Other	608,047	206,473	123,381	937,901
Receivables:				
Property tax				
Delinquent	50,040	0	13,212	63,252
Succeeding year	1,272,321	0	263,366	1,535,687
Income surtax	93,348	0	0	93,348
Accounts	3,193	0	267	3,460
Accrued ISCAP interest (Note 4)	140	0	0	140
Due from other governments	76,187	135,712	0	211,899
<b>TOTAL ASSETS</b>	<b>\$ 2,555,570</b>	<b>342,185</b>	<b>400,226</b>	<b>3,297,981</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 54,263	24,672	367	79,302
Salaries and benefits payable	386,065	0	0	386,065
ISCAP warrants payable (Note 4)	452,000	0	0	452,000
ISCAP interest payable (Note 4)	115	0	0	115
ISCAP unamortized premium	3,440	0	0	3,440
Deferred revenue:				
Succeeding year property tax	1,272,321	0	263,366	1,535,687
Income surtax	93,348	0	0	93,348
Total liabilities	2,261,552	24,672	263,733	2,549,957
Fund balances:				
Reserved:				
Debt service	0	0	15,794	15,794
Beginning teacher mentoring	499	0	0	499
Additional teacher contract day	863	0	0	863
Additional professional development	1,029	0	0	1,029
Unreserved:				
Undesignated:				
General	291,627	0	0	291,627
Capital projects	0	317,513	0	317,513
Management levy	0	0	44,657	44,657
Physical plant and equipment levy	0	0	19,829	19,829
Other special revenue purposes	0	0	56,213	56,213
Total fund balances	294,018	317,513	136,493	748,024
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,555,570</b>	<b>342,185</b>	<b>400,226</b>	<b>3,297,981</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

BEDFORD COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2006

<b>Total fund balances of governmental funds (page 15)</b>	\$ 748,024
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	4,855,803
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	93,348
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(3,044)
Long-term liabilities, including bonds payable, capital loan notes payable and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,255,268)</u>
<b>Net assets of governmental activites (page 13)</b>	<u><u>\$ 4,438,863</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

BEDFORD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 1,347,397	250,323	326,887	1,924,607
Tuition	288,236	0	0	288,236
Other	88,694	6,053	170,375	265,122
State sources	2,434,906	0	0	2,434,906
Federal sources	215,985	0	0	215,985
Total revenues	4,375,218	256,376	497,262	5,128,856
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	1,675,859	0	66,759	1,742,618
Special instruction	668,187	0	0	668,187
Other instruction	531,878	0	160,137	692,015
	2,875,924	0	226,896	3,102,820
Support services:				
Student services	125,990	0	0	125,990
Instructional staff services	154,620	0	0	154,620
Administration services	534,728	0	7,000	541,728
Operation and maintenance of plant services	370,450	0	48,960	419,410
Transportation services	185,918	0	11,426	197,344
	1,371,706	0	67,386	1,439,092
Other expenditures:				
Facilities acquisitions	0	110,483	78,960	189,443
Long-term debt:				
Principal	0	0	185,000	185,000
Interest and fiscal charges	0	0	41,365	41,365
AEA flowthrough	159,486	0	0	159,486
	159,486	110,483	305,325	575,294
Total expenditures	4,407,116	110,483	599,607	5,117,206
Excess(deficiency) of revenues over(under) expenditures	(31,898)	145,893	(102,345)	11,650
Other financing sources(uses):				
Sale of equipment	5,504	0	0	5,504
Transfers in	0	0	75,443	75,443
Transfers out	0	(54,000)	(21,443)	(75,443)
Total other financing sources(uses)	5,504	(54,000)	54,000	5,504
Net change in fund balances	(26,394)	91,893	(48,345)	17,154
Fund balance beginning of year	320,412	225,620	184,838	730,870
Fund balance end of year	\$ 294,018	317,513	136,493	748,024

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

BEDFORD COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ 17,154

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures, depreciation expense and loss on disposal of capital assets for the current year, are as follows:

Expenditures for capital assets	\$ 218,080	
Depreciation expense	(241,639)	
Loss on disposal of capital assets	<u>(4,500)</u>	(28,059)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (6,419)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 185,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 336

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement	<u>31,066</u>
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Changes in net assets of governmental activities (page 14) \$ 199,078

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

BEDFORD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
ASSETS	
Accounts receivable	\$ 149
Due from other governments	13,637
Inventories	7,676
Capital assets, net of accumulated depreciation(Note 5)	44,169
TOTAL ASSETS	<u>65,631</u>
LIABILITIES	
Excess of warrants issued over bank balance	11,681
Salaries and benefits payable	14,696
Unearned revenue	2,774
TOTAL LIABILITIES	<u>29,151</u>
NET ASSETS	
Investment in capital assets, net of related debt	44,169
Unrestricted	(7,689)
TOTAL NET ASSETS	<u>\$ 36,480</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

BEDFORD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 116,707
TOTAL OPERATING REVENUES	<u>116,707</u>
OPERATING EXPENSES:	
Support services:	
Operation and maintenance of	
plant services:	
Services	<u>237</u>
Non-instructional programs:	
Food service operations:	
Salaries	102,752
Benefits	25,522
Supplies	183,829
Depreciation	9,789
Other	1,520
	<u>323,412</u>
TOTAL OPERATING EXPENSES	<u>323,649</u>
OPERATING LOSS	<u>(206,942)</u>
NON-OPERATING REVENUES:	
State sources	3,102
Federal sources	176,948
Interest income	105
TOTAL NON-OPERATING REVENUES	<u>180,155</u>
Change in net assets	(26,787)
Net assets beginning of year	<u>63,267</u>
Net assets end of year	<u>\$ 36,480</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

BEDFORD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 115,899
Cash received from miscellaneous	1,034
Cash payments to employees for services	(129,768)
Cash payments to suppliers for goods or services	(169,723)
Net cash used in operating activities	<u>(182,558)</u>
Cash flows from non-capital financing activities:	
State grants received	3,102
Federal grants received	<u>154,886</u>
Net cash provided by non-capital financing activities	<u>157,988</u>
Cash flows from investing activities:	
Interest on investments	<u>105</u>
Net cash provided by investing activities	<u>105</u>
Net decrease in cash and cash equivalents	(24,465)
Cash and cash equivalents at beginning of year	<u>12,784</u>
Cash and cash equivalents at end of year	<u><u>\$ (11,681)</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (206,942)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	15,922
Depreciation	9,789
Increase in inventories	(59)
Increase in accounts receivable	(149)
Decrease in salaries and benefits payable	(1,494)
Increase in unearned revenue	375
Net cash used in operating activities	<u><u>\$ (182,558)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ (11,681)</u></u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$15,922.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



BEDFORD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND  
JUNE 30, 2006

	<u>Agency</u>
ASSETS	
Due from other governments	<u>\$        21,384</u>
LIABILITIES	
Excess of warrants issued over bank balance	<u>\$        21,384</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

BEDFORD COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2006

**(1) Summary of Significant Accounting Policies**

The Bedford Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Bedford, Iowa, and the predominate agricultural territory in Taylor and Ringgold Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Bedford Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Bedford Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Taylor and Ringgold Counties Assessors' Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Investment in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following major proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board

Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax

receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for student fees and lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the balance sheet in the Enterprise, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements in the other expenditures function exceeded the amounts budgeted.

### (2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments as of June 30, 2006.

### (3) **Transfers**

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenues - Physical Plant and Equipment Levy	\$ 21,443
Debt Service	Capital Projects	54,000
Total		<u>\$ 75,443</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(4) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06A	6/28/05	6/28/06	\$ 923	0	0	0
2006-07A	6/28/06	6/28/07	451,371	140	452,000	115
			<u>\$ 452,294</u>	<u>140</u>	<u>452,000</u>	<u>115</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06A	\$ 0	100,000	100,000	0

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:



Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	3.500%	3.903%
2006-07A	4.500%	5.676%

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 13,400	0	0	13,400
Total capital assets not being depreciated	13,400	0	0	13,400
Capital assets being depreciated:				
Buildings	5,945,514	114,219	0	6,059,733
Land improvements	587,162	17,150	10,000	594,312
Machinery and equipment	1,006,142	86,711	68,623	1,024,230
Total capital assets being depreciated	7,538,818	218,080	78,623	7,678,275
Less accumulated depreciation for:				
Buildings	1,518,659	162,558	0	1,681,217
Land improvements	279,045	25,580	5,500	299,125
Machinery and equipment	870,652	53,501	68,623	855,530
Total accumulated depreciation	2,668,356	241,639	74,123	2,835,872
Total capital assets being depreciated, net	4,870,462	(23,559)	4,500	4,842,403
Governmental activities capital assets, net	\$ 4,883,862	(23,559)	4,500	4,855,803
Business-type activities:				
Machinery and equipment	\$ 117,473	0	0	117,473
Less accumulated depreciation	63,515	9,789	0	73,304
Business-type activities capital assets, net	\$ 53,958	(9,789)	0	44,169

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 5,950
Support services:	
Administration	6,712
Operation and maintenance	12,542
Transportation	28,297
	<u>53,501</u>
Unallocated depreciation	<u>188,138</u>
Total governmental activities depreciation expense	<u>\$ 241,639</u>
Business-type activities:	
Food services	<u>\$ 9,789</u>

**(6) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,275,000	0	170,000	1,105,000	175,000
Capital loan notes	130,000	0	15,000	115,000	15,000
Early retirement	66,334	35,693	66,759	35,268	35,268
Total	<u>\$ 1,471,334</u>	<u>35,693</u>	<u>251,759</u>	<u>1,255,268</u>	<u>225,268</u>

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond Issue of July 1, 2003		
		Principal	Interest	Total
2007	2.50	% \$ 175,000	30,500	205,500
2008	2.50	175,000	26,125	201,125
2009	2.50	180,000	21,750	201,750
2010	3.00	185,000	17,250	202,250
2011	3.00	195,000	11,700	206,700
2012	3.00	195,000	5,850	200,850
Total		<u>\$ 1,105,000</u>	<u>113,175</u>	<u>1,218,175</u>

Capital Loan Notes Payable

Details of the District's June 30, 2006 capital loan notes indebtedness are as follows:

Year Ending June 30,	Capital Loan Notes				
	Interest Rates		Principal	Interest	Total
2007	4.40	% \$	15,000	6,020	21,020
2008	4.50		20,000	5,360	25,360
2009	4.60		20,000	4,460	24,460
2010	4.70		20,000	3,540	23,540
2011	6.50		20,000	2,600	22,600
2012	6.50		20,000	1,300	21,300
Total		\$	115,000	23,280	138,280

**(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$167,332, \$163,096 and \$161,959 respectively, equal to the required contributions for each year.

**(8) Risk Management**

Bedford Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$159,486 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditure in the other expenditures function exceeded the amount budgeted.

**(11) Deficit Unrestricted Net Assets**

The Enterprise, School Nutrition Fund had deficit unrestricted net assets of \$7,689 at June 30, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

BEDFORD COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Fund Types	Fund Types		Original	Final	Actual
	Actual	Actual	Actual			Variance -
						Positive
						(Negative)
Revenues:						
Local sources	\$ 2,477,965	116,812	2,594,777	2,528,590	2,528,590	66,187
State sources	2,434,906	3,102	2,438,008	2,637,850	2,637,850	(199,842)
Federal sources	215,985	176,948	392,933	426,000	426,000	(33,067)
Total revenues	5,128,856	296,862	5,425,718	5,592,440	5,592,440	(166,722)
Expenditures:						
Instruction	3,102,820	0	3,102,820	3,855,026	3,855,026	752,206
Support services	1,439,092	237	1,439,329	1,628,569	1,628,569	189,240
Non-instructional programs	0	323,412	323,412	412,127	412,127	88,715
Other expenditures	575,294	0	575,294	545,294	545,294	(30,000)
Total expenditures	5,117,206	323,649	5,440,855	6,441,016	6,441,016	1,000,161
Excess(deficiency) of revenues over(under) expenditures	11,650	(26,787)	(15,137)	(848,576)	(848,576)	833,439
Other financing sources, net	5,504	0	5,504	3,000	3,000	2,504
Excess(deficiency) of revenues and other financing sources over(under) expenditures	17,154	(26,787)	(9,633)	(845,576)	(845,576)	835,943
Balance beginning of year	730,870	63,267	794,137	811,649	811,649	(17,512)
Balance end of year	\$ 748,024	36,480	784,504	(33,927)	(33,927)	818,431

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BEDFORD COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION



BEDFORD COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2006

	Special Revenue Funds					Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds		
ASSETS							
Cash and pooled investments	\$ 39,770	47,051	17,541	9,262	113,624	9,757	123,381
Receivables:							
Property tax							
Current year delinquent	4,887	0	2,288	0	7,175	6,037	13,212
Succeeding year	125,000	0	57,475	0	182,475	80,891	263,366
Accounts	0	267	0	0	267	0	267
TOTAL ASSETS	\$ 169,657	47,318	77,304	9,262	303,541	96,685	400,226
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable	\$ 0	367	0	0	367	0	367
Deferred revenue:							
Succeeding year property tax	125,000	0	57,475	0	182,475	80,891	263,366
	125,000	367	57,475	0	182,842	80,891	263,733
Fund equity:							
Fund balances:							
Reserved for Debt Service	0	0	0	0	0	15,794	15,794
Unreserved, undesignated	44,657	46,951	19,829	9,262	120,699	0	120,699
	44,657	46,951	19,829	9,262	120,699	15,794	136,493
TOTAL LIABILITIES AND FUND EQUITY	\$ 169,657	47,318	77,304	9,262	303,541	96,685	400,226

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BEDFORD COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					Total
	Manage-	Student	Physical	Expendable	Total	Other
	ment	Activity	Plant and	Trust	Special	Nonmajor
			Equipment		Revenue	Governmental
			Levy		Funds	Funds
REVENUES:						
Local sources:						
Local tax	\$ 120,112	0	56,829	0	176,941	149,946
Other	4,798	162,331	1,011	290	168,430	1,945
TOTAL REVENUES	124,910	162,331	57,840	290	345,371	151,891
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	66,759	0	0	0	66,759	0
Other instruction	0	160,137	0	0	160,137	0
Support services:						
Administration services	0	0	0	7,000	7,000	0
Operation and maintenance of						
plant services	48,960	0	0	0	48,960	0
Transportation services	11,426	0	0	0	11,426	0
Other expenditures:						
Facilities acquisition	0	0	78,960	0	78,960	0
Long-term debt:						
Principal	0	0	0	0	0	185,000
Interest and fiscal charges	0	0	0	0	0	41,365
TOTAL EXPENDITURES	127,145	160,137	78,960	7,000	373,242	226,365
Excess(deficiency) of revenues over(under) expenditures	(2,235)	2,194	(21,120)	(6,710)	(27,871)	(74,474)
OTHER FINANCING SOURCES(USES):						
Transfers in	0	0	0	0	0	75,443
Transfers out	0	0	(21,443)	0	(21,443)	0
TOTAL OTHER FINANCING SOURCES(USES)	0	0	(21,443)	0	(21,443)	75,443
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	(2,235)	2,194	(42,563)	(6,710)	(49,314)	969
FUND BALANCES BEGINNING OF YEAR	46,892	44,757	62,392	15,972	170,013	14,825
FUND BALANCES END OF YEAR	\$ 44,657	46,951	19,829	9,262	120,699	15,794

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BEDFORD COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<b>HS Athletics:</b>				
Football	\$ 11,718	9,366	9,332	11,752
Volleyball	130	4,192	4,322	0
Basketball	9,336	11,094	8,903	11,527
Wrestling	0	3,094	3,434	(340)
Track	(2,172)	2,653	3,925	(3,444)
Softball	(3,623)	3,333	3,738	(4,028)
Baseball	(5,165)	4,666	3,821	(4,320)
Golf	0	1,040	1,040	0
Cross Country	0	877	877	0
	10,224	40,315	39,392	11,147
<b>HS Clubs &amp; Organizations:</b>				
FFA	9,626	11,081	11,849	8,858
FHA	1,116	1,776	1,937	955
Iron Man Club	55	3,537	3,537	55
NHS	197	758	402	553
Student Council	1,086	7,048	6,651	1,483
SADOBS	686	1,850	1,973	563
Instrumental Club	(107)	1,217	1,210	(100)
Vocal	463	725	520	668
Swish and Spike Club	0	2,290	64	2,226
BPA	891	6,463	6,423	931
Yearbook	5,768	7,426	8,299	4,895
Teachers	0	4,422	3,206	1,216
Cheerleaders	2,746	9,650	15,388	(2,992)
Art	913	65	0	978
Musical	2,625	0	1,899	726
Music Club	9	0	0	9
Class of 2005	1,227	0	1,227	0
Class of 2006	6,661	5,309	11,970	0
Class of 2007	551	21,140	15,481	6,210
Class of 2008	325	0	0	325
Class of 2009	659	0	0	659
Class of 2010	632	413	106	939
Class of 2011	400	504	80	824
Class of 2012	0	400	0	400
	36,529	86,074	92,222	30,381
<b>MS Athletics:</b>				
Volleyball	209	1,058	775	492
Basketball	0	1,783	1,048	735
Wrestling	394	545	189	750
Track	687	836	468	1,055
Softball	0	849	660	189

BEDFORD COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<b>MS Athletics (Continued):</b>				
Baseball	0	1,163	1,163	0
Football	0	1,762	1,062	700
	1,290	7,996	5,365	3,921
<b>MS Clubs &amp; Organizations:</b>				
Student Council	51	0	0	51
Magazine Sales	0	9,804	9,804	0
	51	9,804	9,804	51
<b>Elementary Clubs &amp; Organizations:</b>				
Puerto Rico	621	1,111	887	845
K-8 Book Fair	826	4,534	5,360	0
Teachers	0	2,800	2,800	0
Student Council	298	2,936	2,190	1,044
Yearbook	(884)	0	0	(884)
	861	11,381	11,237	1,005
<b>District-wide Accounts:</b>				
Great Race	107	144	58	193
Activity Tickets	0	4,535	4,535	0
Interest	0	444	444	0
Paperback Books	0	0	0	0
Field Trips	14	2,250	2,620	(356)
After Prom	544	3,178	3,013	709
Accruals	(4,863)	(3,790)	(8,553)	(100)
	(4,198)	6,761	2,117	446
Total	\$ 44,757	162,331	160,137	46,951

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BEDFORD COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2006

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Due from other governments	\$ 18,009	55,827	52,452	21,384
LIABILITIES				
Excess of warrants issued over bank balance	\$ 18,009	55,827	52,452	21,384

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BEDFORD COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
<b>Revenues:</b>					
Local sources:					
Local tax		\$ 1,924,607	1,916,676	1,715,835	1,612,417
Tuition		288,236	286,952	226,566	256,724
Other		265,122	223,187	255,583	256,587
Intermediate sources		0	0	13,842	36,558
State sources		2,434,906	2,448,145	2,387,939	2,292,532
Federal sources		215,985	276,921	202,782	301,054
Total		\$ 5,128,856	5,151,881	4,802,547	4,755,872
<b>Expenditures:</b>					
Instruction:					
Regular instruction		\$ 1,742,618	1,685,586	1,827,291	1,903,975
Special instruction		668,187	631,157	681,621	570,619
Other instruction		692,015	699,544	461,861	463,915
Support services:					
Student services		125,990	119,110	126,943	133,220
Instructional staff services		154,620	145,669	66,160	65,210
Administration services		541,728	470,936	516,767	507,742
Operation and maintenance of plant services		419,410	473,976	362,397	397,100
Transportation services		197,344	205,110	174,590	172,462
Other support services		0	0	64,068	211,177
Other expenditures:					
Facilities acquisitions		189,443	86,976	56,448	345,850
Long-term debt:					
Principal		185,000	180,000	180,000	140,000
Interest and other charges		41,365	45,377	194,065	94,758
AEA flow-through		159,486	159,710	161,018	172,244
Total		\$ 5,117,206	4,903,151	4,873,229	5,178,272

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

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### Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the  
Bedford Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Bedford Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 30, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bedford Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-06 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bedford Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Bedford Community School District and other parties to Bedford Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Bedford Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 30, 2006



BEDFORD COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-06 Checks Outstanding - We noted during our audit that the District had checks included in the Special Revenue, Student Activity Fund bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be re-issued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - Iowa's unclaimed property laws state the dormancy period is two years for governmental agencies. We submit qualifying outstanding checks over two years old to the Treasurer of Iowa and void non-qualifying outstanding checks(outstanding amounts less than \$50). We review this annually, and submit UP4-Negative Report to the Treasurer of Iowa if there are no checks to be submitted. Only payroll checks are to be submitted after one year of dormancy.

Conclusion - Response accepted.

- I-C-06 Student Activity Fund - We noted during our audit of the Student Activity Fund that the District had a Teacher Pop account. This account would appear to be more appropriately handled in the General Fund.

Recommendation - The District should review this account and make necessary transfers to provide that transactions are recorded in the proper fund.

Response - We will make the necessary changes.

Conclusion - Response accepted.

- I-D-06 Supporting Documents for Payments with Credit Cards - Payments made with credit cards do not always have detailed supporting documentation.

Recommendation - The District has a policy in place for credit card usage. The users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place to ensure the proper detailed documentation will be available with paid credit card statements.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

I-E-06 School Employees that Officiate Athletic Events - We noted during our audit that the District contracts with officials to officiate athletic events. Some of these officials are District employees.

Recommendation - The School Business Alert Volume 2001-1 from June 2001 states "that additional payments to employees of a District who provide additional services to the District should be handled through the District regular payroll process and reported as wages on the employee's W-2." The District needs to review procedures in place to ensure that the payments to employees that are officials are included in regular payroll and reported on the employee's W-2.

Response - We will pay officials that are employees through regular payroll.

Conclusion - Response accepted.

BEDFORD COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006, exceeded the amount budgeted in the other expenditures functions.

Recommendation -The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will monitor future budgets more closely to avoid exceeding the budget in the future.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Tony Brown, Board Member Manager of Hy-Vee	Supplies	\$77,629
Kay Goodridge, Para-educator Distributor for Home Interior	Candles	\$3,335

In accordance with Chapter 279.7A of the code of Iowa, the above transactions with Tony Brown appear to represent a conflict of interest.

In accordance with the Attorney's General's opinion dated July 2, 1990, the above transactions with Kay Goodridge do not appear to represent a conflict of interest.

Recommendation - The District should consult legal council to determine if the transactions with Tony Brown represent a conflict of interest to the District.

Response - We have consulted legal council to determine if there is a conflict of interest with the transactions involving Board Member Brown and the Hy-Vee Food Store. Our attorney believes that due to the "employment exception" that Board Member Brown is not a conflict of interest and does not "benefit" personally from the contracts with Hy-Vee.

Conclusion - Response acknowledged.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- II-J-06 Student Activity Fund - We noted during our audit that the Student Activity Fund included several deficit account balances at June 30, 2006. We also noted during our audit that the Enterprise, School Nutrition Fund had deficit restricted net assets of \$7,689.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods and services from these accounts. The District should investigate alternatives to eliminate the deficit balances.

Response - We will monitor these funds and accounts.

Conclusion - Response accepted.